

CONTENTS

List of figures xv

List of tables xviii

List of boxes xx

Preface xxii

Acknowledgments xxviii

CHAPTER 1 Introduction: an overview of the world economy 1

Introduction 1

The scope of international economics 2

The output of the world economy 3

Imports and exports of goods in the world economy 4

International trade in services 6

Capital flows in the world economy 10

Trends in international production and trade 12

Globalization 14

Summary 17

Key concepts and terms 17

Problems and questions for review 18

Notes 18

References 19

CHAPTER 2 Why countries trade 20

Introduction 20

International trade versus interregional trade 21

Trade in an individual product 21

Trade based on absolute advantage 26

Absolute advantage 26

The gains from specialization and trade with absolute advantage 27

Trade based on comparative advantage 28

Comparative advantage 29

The gains from specialization and trade with comparative advantage 30

Trade based on opportunity costs 32

Opportunity costs 33

The gains from specialization and trade with opportunity costs 33

Dynamic gains from trade	34
Summary	35
Key concepts and terms	36
Problems and questions for review	36
Notes	37
References	37

CHAPTER 3 Comparative advantage and the production possibilities frontier 39

Introduction	39
The production possibilities frontier and constant costs	40
<i>The production possibilities frontier</i>	40
<i>Production and consumption without specialization and trade</i>	42
<i>Production and consumption with specialization and trade</i>	42
The terms of trade	47
<i>Changes in the gains from specialization and trade</i>	47
<i>Demand conditions and the terms of trade</i>	48
<i>Distribution of the gains from trade</i>	49
Trade under increasing opportunity costs	51
<i>Increasing costs and the production possibilities frontier</i>	51
<i>Production and consumption without specialization and trade</i>	54
<i>Production and consumption with specialization and trade</i>	54
International trade under increasing costs: an advanced analysis	58
Summary	64
Key concepts and terms	64
Problems and questions for review	64
Notes	65
References	66

CHAPTER 4 Factor endowments and the commodity composition of trade 67

Introduction	67
The factor-proportions theory	68
<i>Assumptions of the factor-proportions theory</i>	68
<i>The factor-proportions theory</i>	70
Factor-price equalization and the distribution of income	73
<i>Factor-price equalization</i>	73
<i>Trade and the distribution of income</i>	76
<i>Trade and income inequality</i>	78
The specific-factors model	80
Empirical evidence concerning the factor-proportions theory	82
<i>The Leontief paradox</i>	82
<i>Explanations of the Leontief paradox</i>	83
International trade not explained by the factor-proportions theory	85
Summary	86

Key concepts and terms	86
Problems and questions for review	87
Notes	88
References	89
Appendix 4.1: Factor-proportions theory: an advanced analysis	90

CHAPTER 5 Intra-industry trade 93

Introduction	93
Defining intra-industry trade	93
The increasing importance of intra-industry trade	96
Intra-industry trade in homogeneous products	98
Intra-industry trade in differentiated products	98
<i>Economies of scale</i>	100
<i>The product cycle</i>	104
<i>Overlapping demands</i>	106
Empirical evidence on intra-industry trade	109
The welfare implications of intra-industry trade	110
Summary	113
Key concepts and terms	114
Problems and questions for review	114
Notes	115
References	115

CHAPTER 6 THE FIRM IN THE WORLD ECONOMY 117

Introduction	117
The firm in international trade	118
<i>Firm heterogeneity</i>	118
The multinational corporation	123
<i>The importance of MNCs</i>	123
<i>Reasons for the existence of MNCs</i>	127
Offshoring and MNCs	129
Global value chains	130
Public policy toward MNCs	131
Summary	133
Key concepts and terms	133
Problems and questions for review	133
Notes	134
References	134

CHAPTER 7 International factor movements 136

Introduction	136
International trade versus international factor movements	137
International movements of capital	138



Reasons for the international movement of capital	139
Welfare effects of international capital movements	140
Capital movements and public policy	142
International movements of labor	143
Reasons for the international movement of labor	144
Welfare effects of the international movement of labor	146
Immigration and public policy	149
Summary	150
Key concepts and terms	151
Problems and questions for review	151
Notes	152
References	152

CHAPTER 8 Tariffs 153

Introduction	153
Tariffs: some preliminary details	153
Types of tariffs	154
Methods of valuing imports	155
Welfare effects of trade in an individual product	156
Consumer and producer surplus: a review	156
The effects of free trade	158
The economic effects of tariffs	161
The effects of a tariff for a small country	161
The effects of a tariff for a large country	163
The effective rate of protection	166
Arguments for tariffs	168
Infant government	169
National defense	169
Infant industries	171
Senile industry protection	171
Tariffs, trade, and jobs	173
Summary	174
Key concepts and terms	175
Problems and questions for review	175
Notes	176
References	176

CHAPTER 9 Nontariff distortions to trade 177

Introduction	177
Nontariff barriers to trade	178
Quotas	179
The economic effects of a quota	182
Other nontariff distortions	185

Industrial policy	186
Technical barriers to trade	187
Subsidies	189
Government procurement	189
Corruption and international trade	190
Economic sanctions	192
Labor and environmental standards	193
Transportation costs and trade	196
The gravity equation and international trade	199
Summary	200
Key concepts and terms	201
Problems and questions for review	201
Notes	202
References	202

CHAPTER 10 International trade policy 204

Introduction	204
The political economy of protectionism	205
<i>Protectionism and public choice</i>	205
<i>The structure of protection</i>	210
The evolution of U.S. trade policy	212
The formulation of U.S. trade policy	214
Antidumping, countervailing duties, and safeguards	215
<i>Antidumping</i>	216
<i>Types of dumping</i>	216
<i>History of antidumping law in the United States</i>	217
<i>Countervailing duties</i>	218
<i>Safeguards</i>	219
The General Agreement on Tariffs and Trade (GATT)	220
GATT and multilateral trade negotiations	220
The World Trade Organization (WTO)	223
The future of international trade negotiations	223
Summary	226
Key concepts and terms	227
Problems and questions for review	227
Notes	227
References	229
Appendix 10.1: Price discrimination	230

CHAPTER 11 Regional economic arrangements 231

Introduction	231
Degrees of economic integration	232
Rules of origin in international trade	235

Trade effects of economic integration	236
The static effects of a customs union	238
The European Union	241
NAFTA and other U.S. trade agreements	244
<i>NAFTA</i>	245
<i>Other U.S. trade agreements</i>	246
Multilateralism versus regional trade agreements	248
Summary	251
Key concepts and terms	252
Problems and questions for review	252
Notes	253
References	253

CHAPTER 12 International trade and economic growth 255

Introduction	255
The developing countries	256
<i>Economic development</i>	256
<i>GDP of developing countries</i>	256
Economic growth	258
<i>Preconditions for growth</i>	258
<i>Economic growth and the factors of production</i>	260
<i>Basic growth theory</i>	261
<i>Changes in capital stock and technology</i>	262
International trade and economic growth	263
<i>Openness and growth</i>	263
<i>Capital flows, technology transfers, and economic growth</i>	265
Economic development strategies	266
<i>Primary products</i>	267
<i>Import substitution</i>	271
<i>Export promotion</i>	273
Official development assistance	277
<i>The role of official development assistance</i>	277
<i>Flows of official development assistance</i>	278
Multilateral development organizations	279
<i>The World Bank and regional development banks</i>	280
<i>The United Nations agencies</i>	281
Summary	281
Key concepts and terms	282
Problems and questions for review	282
Notes	282
References	283

CHAPTER 13 National income accounting and the balance of payments 284

Introduction	284
National income accounting	285
<i>The measurement of GDP</i>	285
<i>Items excluded from GDP</i>	285
<i>GDP and changes in prices</i>	286
<i>The components of GDP</i>	286
GDP and the trade balance	288
<i>GDP in a closed economy</i>	288
<i>GDP in an open economy</i>	289
<i>Imports, exports, and GDP</i>	289
<i>Intertemporal trade</i>	290
<i>Saving, investment, the government budget, and the trade balance</i>	291
<i>Adjustments to trade imbalances</i>	292
The balance of payments accounts	295
<i>The balance on current account</i>	295
<i>The balance on capital and financial accounts</i>	301
Summary	304
Key concepts and terms	304
Problems and questions for review	305
Notes	305
References	306

CHAPTER 14 Exchange rates and their determination: a basic model 307

Introduction	307
Exchange rates	307
The demand for foreign exchange	310
Shifts in the demand for foreign exchange	311
<i>Changes in domestic income</i>	311
<i>Changes in relative prices</i>	313
The supply of foreign exchange	314
Shifts in the supply of foreign exchange	315
<i>Changes in foreign income</i>	315
<i>Changes in relative prices</i>	316
Equilibrium in the foreign exchange market	317
Changes in the equilibrium exchange rate	318
Exchange rate volatility and international trade	321
Exchange rate pass through	321
Price levels and the exchange rate in the long run	324
The law of one price	324
Purchasing power parity	328

<i>Absolute purchasing power parity</i>	329
<i>Relative purchasing power parity</i>	329
<i>Purchasing power parity in the short run and the long run</i>	330
The real exchange rate	334
<i>Changes in the real exchange rate</i>	338
Summary	341
Key concepts and terms	342
Problems and questions for review	342
Notes	343
References	344

CHAPTER 15 Money, interest rates, and the exchange rate 345

Introduction	345
Money defined: a review	346
The supply of money	347
The demand for money	350
The equilibrium interest rate: the interaction of money supply and demand	351
The interest rate and the exchange rate in the short run	356
Interest rates, the exchange rate, and the balance of payments	362
Summary	366
Key concepts and terms	366
Problems and questions for review	366
Notes	367
References	368
Appendix 15.1: The relationship between the monetary base and the money supply	368
Appendix 15.2: Interest parity and covered interest arbitrage	369

CHAPTER 16 Open economy macroeconomics 371

Introduction	371
Aggregate demand and aggregate supply: a review	372
<i>Aggregate demand</i>	372
<i>Changes in aggregate demand</i>	373
Aggregate supply	377
<i>Changes in aggregate supply</i>	378
Aggregate equilibrium	382
Determinants of the current account	383
<i>Exports</i>	383
<i>Imports</i>	384
Exchange rate changes and equilibrium output in an open economy	386
<i>Exchange rate appreciation</i>	387
<i>Exchange rate depreciation</i>	390
Exchange rate shocks	392

Summary	396
Key concepts and terms	397
Problems and questions for review	397
Notes	398
References	399

CHAPTER 17 Macroeconomic policy and floating exchange rates 400

Introduction	400
Fiscal and monetary policy	400
Changes in fiscal policy	401
<i>Expansionary fiscal policy</i>	401
<i>Contractionary fiscal policy</i>	406
Changes in monetary policy	409
<i>Expansionary monetary policy</i>	410
<i>Contractionary monetary policy</i>	414
Monetary and fiscal policy in an open economy	418
Consistent policy mixes	420
<i>Inconsistent policy mixes</i>	421
Trade flow adjustment and current account dynamics	424
Summary	425
Key concepts and terms	426
Problems and questions for review	427
Notes	427
References	428

CHAPTER 18 Fixed exchange rates and currency unions 430

Introduction	430
Inconvertible currencies	431
<i>Difficulties associated with exchange controls</i>	433
Intervention in the foreign exchange market	437
<i>Macroeconomic adjustment under fixed exchange rates: Part I</i>	440
<i>Macroeconomic adjustment under fixed exchange rates: Part II</i>	442
<i>Fiscal policy and internal balance</i>	444
<i>The effects of expansionary and contractionary fiscal policy</i>	446
<i>Sterilization</i>	450
<i>Pegging the exchange rate with monetary policy</i>	452
Currency unions	453
The trilemma	454
The European Monetary Union	455
Summary	458
Key concepts and terms	459
Problems and questions for review	459
Notes	460
References	460

CHAPTER 19 International monetary arrangements 461

- Introduction 461
- The gold standard 462
 - The gold standard and monetary policy* 462
 - The macroeconomics of the gold standard* 463
- Costs and benefits of the gold standard 465
- The Bretton Woods system and the International Monetary Fund 466
 - The Bretton Woods System* 467
 - The International Monetary Fund* 468
 - The demise of the Bretton Woods System* 469
- The post-Bretton Woods era 470
- Clean floats 470
 - Fixing the exchange rate* 471
- Options for international monetary reform 473
- Summary 476
- Key concepts and terms 477
- Problems and questions for review 477
- Notes 478
- References 478

CHAPTER 20 Capital flows and the developing countries 479

- Introduction 479
- Capital flows to developing countries 480
 - Debt versus equity* 480
 - Servicing foreign debt* 482
- Exchange rate shocks 483
 - Macroeconomic consequences of exchange rate shocks* 484
 - Sources of exchange rate shocks* 486
- Commodity price shocks 486
- Exchange controls 488
- Intervention, capital flights, and defaults 490
- The IMF and developing countries 494
 - IMF conditionality* 494
 - The future of the IMF* 496
- Summary 498
- Key concepts and terms 499
- Problems and questions for review 499
- Note 500
- References 500

Appendix: GDP, population, and exports for U.S. regions and states, 2018 501**Glossary 509****Index 518**